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RUEHSF/AMEMBASSY SOFIA 0039
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C O N F I D E N T I A L SECTION 01 OF 03 DOHA 000495

SIPDIS

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TAGS: ENRG EPET ECON PREL EINV TRGY RU IR QA BE
HU, SP, BU, PL, HR, RS, KS, NL
SUBJECT: QATAR CHIPS AWAY AT RUSSIAN DOMINANCE IN THE
EUROPEAN GAS MARKET

Classified By: Amb Joseph LeBaron for Reasons 1.4 (b) and (d).

(C) KEY POINTS

-- Qatar's agreement with Poland in late June to supply an initial 1 million tons per annum of liquefied natural gas (LNG) is the latest example of the Gulf state's desire to diversify the geographic distribution of its customer base by expanding into the European market.

-- Qatar's use of tankers to supply LNG, as opposed to the Russian pipelines that have made Europe's LNG supply vulnerable to supply interruptions arising from political disputes, make Qatar an attractive alternative as a swing supplier.

-- Several European countries are looking to expand LNG imports as Qatar doubles its output in the next two years; Croatia, Hungary, Bulgaria, the Netherlands, and Belgium are in various stages of discussion with Qatar.

-- Most of these deals are negotiated at a senior political level, such as during the Amir of Qatar's trip through Europe this summer.

(C) COMMENTS

-- While Qatar's overall natural gas production is still dwarfed by that of Russia, the flexibility of LNG will help Qatar emerge as a secondary source for Europe and an important swing supplier, thereby furthering the diversity and security of supply for the continent.

-- While the overwhelming majority of Qatar's LNG is now exported to Asia, Qatar's eventual goal is to sell about one-third of its LNG to each of the world's major consuming regions --Asia, Europe, and North America -- to diversify its customer base and hedge against a drop in demand in any one region.

End Key Points and Comments.

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QATAR'S DEEPENING INVESTMENT IN THE POLISH MARKET
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¶1. (C) According to diplomatic sources in Doha, Qatar has recently moved ahead with investment and infrastructure plans in Poland with the goal of augmenting its list of current LNG clients. The first stage of this engagement was the purchase of two Polish shipyards that are able to produce the new Q-Flex tanker vessels used by Qatar to supply its LNG. The deepening relationship shows Qatar's interest in investing in countries that will become key consumers of Qatar's LNG.

¶2. (C) Poland wants to diversify its suppliers of natural gas, since all of Poland's current supply comes from Russia, according to Polish DCM in Doha Wojciech Piatkowski. Poland began discussions on buying natural gas from Qatar in the mid-nineties, but they stalled because the Qataris maintained that they had no gas to sell. The Poles then approached the South Koreans about selling some of their share to Poland. About the time those discussions began, Qatar came back to Poland and offered to sell gas. (Poland let drop discussions with the Koreans at that point.)

¶3. (C) The Polish-Qatari deal signed in June calls for Qatar to supply 1 million tons of LNG for 20 years as soon as Poland finishes building a facility capable of receiving it. The construction project will last an estimated 3-5 years and

will be located at the Port of Swinoujscie on the Baltic Sea. (Construction will take 4-5 years.) It would be the first Baltic port capable of receiving LNG shipments. The Polish DCM said the initial capacity of the facility would be 2.5

million tons of LNG, but that capacity would eventually grow to 7.5 million tons of LNG.

¶4. (C) Poland hopes that Qatar's willingness to supply somegas (the 1 million tons of LNG in the initial agreement) will set the stage for expanded LNG purchases over the life of the 20-year contract. Poland is refurbishing its LNG pipeline network and might eventually acquire the capacity to supply Central European and Russian markets. Initially, however, PGNiG (the Polish importer) plans to sell all of the LNG acquired from Qatar to Polish industrial concerns (primarily petrochemical).

QATAR'S DRIVE TO BE THE SWING PRODUCER

¶5. (C) Qatar is seeking ways to solidify its position as both a constant source and spot shipment supplier to European markets, and the recent agreement with Poland is just one example of its growing involvement with the European LNG market.

¶6. (C) Qatar's primary customers have been South Korea, Japan, and India, the three countries together accounting for almost 77% of total exports in 2008. Long-term contracts have tied up most of Qatar's current production, pushing Qatar to increase production as it looks to expand its market penetration. Recent controversies surrounding gas supplies in Europe have highlighted the need for diversification and have increased Qatar's ability to penetrate the European gas market.

¶7. (C) By investing in foreign infrastructure projects, Qatar is ensuring a steady and reliable consumer base for its LNG shipments, while building stronger international ties that can aid in diversifying its domestic economy. Having built a strong customer base in Asia, Qatar has set its sights on Europe.

¶8. (U) BELGIUM/SPAIN: According to the BP Statistical Review of World Energy, published in June 2009, Belgium consumed 1.96 million tons of Qatari product in 2008. However, Belgium is more than a receiving station, since its LNG facility also reprocesses inbound shipments from Trinidad and Tobago, Norway, Qatar, and Egypt for outbound transport to Portugal, Spain, India, and South Korea. In 2008, Spain purchased 3.79 million tons of LNG from Qatar, making it Qatar's fourth largest customer.

¶9. (SBU) CROATIA/BULGARIA: Recent European and Qatari news articles have focused on Qatar's activities in both Croatia and Bulgaria. Croatia has engaged in talks with Qatar for direct investment in an LNG terminal with support from neighboring countries that are also interested in diversifying their natural gas supplies. Talks with Croatia, though, are currently stalled for three reasons: 1) a lack of sustained interest by the Croatian government, 2) Qatar's stated inability to provide LNG to Croatia before 2012, and 3) Qatar's current unwillingness to make direct investments in the construction of LNG facilities in Croatia. In what appears to be a negotiating tactic, Qatar began talks with Bulgaria concerning the possibility of future LNG shipments as discussions with Croatia stalled.

¶10. (C) HUNGARY: Ratkai Balazs, a political officer in the Hungarian Embassy in Doha, confirmed that Hungary has been following developments in Croatia closely, as it also has a vested interested in developing an LNG terminal on the Croatian island of Krk. Hungary has expressed interest in helping to fund a facility that would be linked to Hungary's gas pipeline network and has also voiced a desire to purchase Qatari LNG in this context.

¶11. (C) TURKEY: While the Nabucco gas pipeline in Turkey would make possible a new transit route for Iranian and

Russian naural gas to Europe, local diplomats note that itcan also become an access point for Qatari LNG intoEurope if proper LNG faclities are built.

OUTREACH

¶12. (C) Qatar's commitment to the European LNG market, European diplomats tell us, was most recently demonstrated by the Amir's recent visits to the United Kingdom, France, Croatia, and Bulgaria. In each country, the Amir and his counterparts addressed current and future trade relations, direct investment opportunities, and LNG options in the context of enhanced bilateral cooperation.
LeBaron